Securities Industry Trends

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AN ANALYSIS OF EMERGING TRENDS IN THE SECURITIES INDUSTRY
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SOME OBSERVATIONS ON INDUSTRY PROFITABILITY

(Remarks by Edward I. O'Brien at the
SIA Spring Meeting, May 7, 1984)

Good morning. We just heard Dick Jenrette give us an important overview of industry developments. In my remarks this morning, I thought we'd take a different look at things. I felt it would be a good idea to review the industry's performance in 1983 -- and in the first quarter of this year -- and see just where the industry stands. I think you may be surprised that the numbers are a lot less bleak than the first quarter earning reports of some of the major firms would indicate.

In order to get a perspective on things, let's look at four major areas:

* Market activity

* Revenue and expenses

* After-tax return on equity

* Capital.

Starting with market activity is useful, because however much we have diversified as an industry, the lion's share of our revenue and earnings is related in one way or another ~~to market~~ volume.

In this area, 1983 was spectacular. Taken as a whole, share volume on the Big Board, Amex, regional exchanges and OTC market increased by an impressive 50 percent. This is a considerably bigger jump than in recent years:

* On NASDAQ alone, volume soared by 89 percent.

* Volume was up 56 percent on the Amex,

* 40 percent on the regional exchanges

* And 31 percent on the Big Board.

The performance of these market centers underscores the solid retail nature of last year's volume. Riding the crest of the volume increase were the popular stock price indices. At year-end 1983,

* The Amex market value index was up 40 percent,

* The Dow Jones Industrials and the NASDAQ Composite Index were up 20 percent,

* And the Standard & Poor's 500 was up 17 percent, as was the NYSE Composite Index.

The buoyant markets of last year contributed to a busy underwriting calendar. Public corporate underwritings reached nearly $100 billion -- up 26 percent from the $79 billion underwritten in 1982. The underwriting of common stock issues alone rose by more than $20 billion, which more than doubled the 1982 figure.

What's particularly exciting about the underwriting area is that --

Initial public offerings increased fourfold in terms of number of shares

and nearly ninefold in terms of share value.

In dollar terms, IPOs went from $1.5 billion in 1982 to an incredible $12.6 billion in 1983.

Meanwhile, in the debt market, offerings of corporate debt declined about 9 percent, from $57 billion to $52 billion.

There was good news on the mutual fund front, as well.

* Net sales of open-end equity funds increased to $22 billion from $5.6 billion in 1982.

* The assets of the funds rose to $113 billion from $77 billion,

* And the actual number of funds grew to 653 from 539.

So our friends over at the Investment Company Institute should have some good news to report in a few weeks at their annual meeting.

Chart 1

New Derivative Products - 1982 and 1983

Date	Product	Type	Exchange	1983 Volume (thousands of contracts)
1982				
2/24	Value Line	Future	KCBT	725.0
4/21	S&P 500	Future	CME	8101.7
5/6	NYSE Composite	Future	NYFE	3506.4
1983				
1/28	S&P 500	Opt. on Future	CME	281.1
1/28	NYSE Composite	Opt. on Future	NYFE	286.2
3/11	S&P 100	Option	CBOE	10595.6
4/29	Major Mkt.	Option	AMEX	2034.5
7/1	S&P 500	Option	CBOE	14.1
7/8	Mkt. Value	Future	AMEX	78.3
7/14	S&P 100	Future	CME	390.9
7/29	Mini Value Line	Future	KCBT	25.1
8/26	Computer Tech.	Option	AMEX	526.0
9/9	Oil & Gas	Option	AMEX	56.3
9/19	S&P Int. Oil	Option	CBOE	4.8
9/23	NYSE Composite	Option	NYFE	628.7
9/28	S&P Composite	Option	CBOE	48.0

To return to our own backyard, 1983 saw the introduction of 13 new derivative products, as compared with only three such products in 1982. These products were of three types --

* Options on broad or narrow-based stock indices,

* Futures on stock indices,

* And options on broad-based index futures.

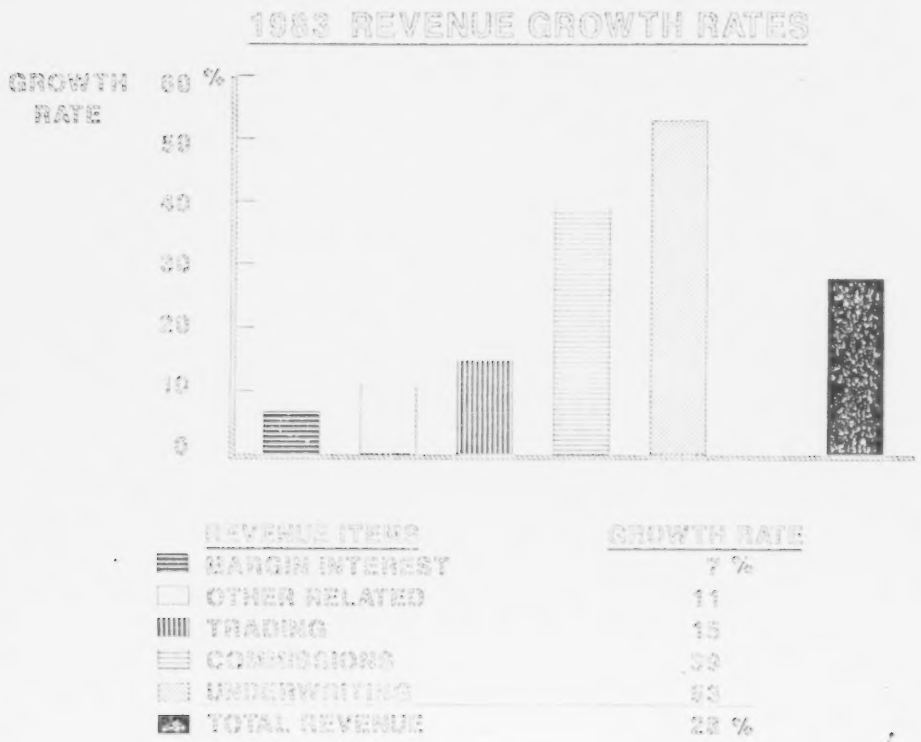
The rapid expansion and proliferation of these products has led to confusion among firm managements, the exchanges, the account executives and -- most importantly -- among our customers.

In an attempt to address the challenges of these new products, SIA created a committee to work with the exchanges, firms and SEC. The committee is under the very able direction of Bob Shapiro, and we'll be hearing about its work in coming months.

Well now, let's get to the bottom line. Where did all the volume and underwriting activity and new products take us in 1983?

On the revenue side, they took us quite far. Gross revenues increased by $6.4 billion to nearly $30 billion in 1983 -- an increase of 28 percent. It's interesting to note that the fastest growing segments of the revenue pie were in the core areas of our business -- commissions and underwriting revenue.

Chart 2



Commission revenue increased by 39 percent, or $2.4 billion, while underwriting revenue was up 53 percent, or $1.2 billion.

Some of the more publicized areas of our business showed improved performance as well, but not to the degree of commissions and underwriting.

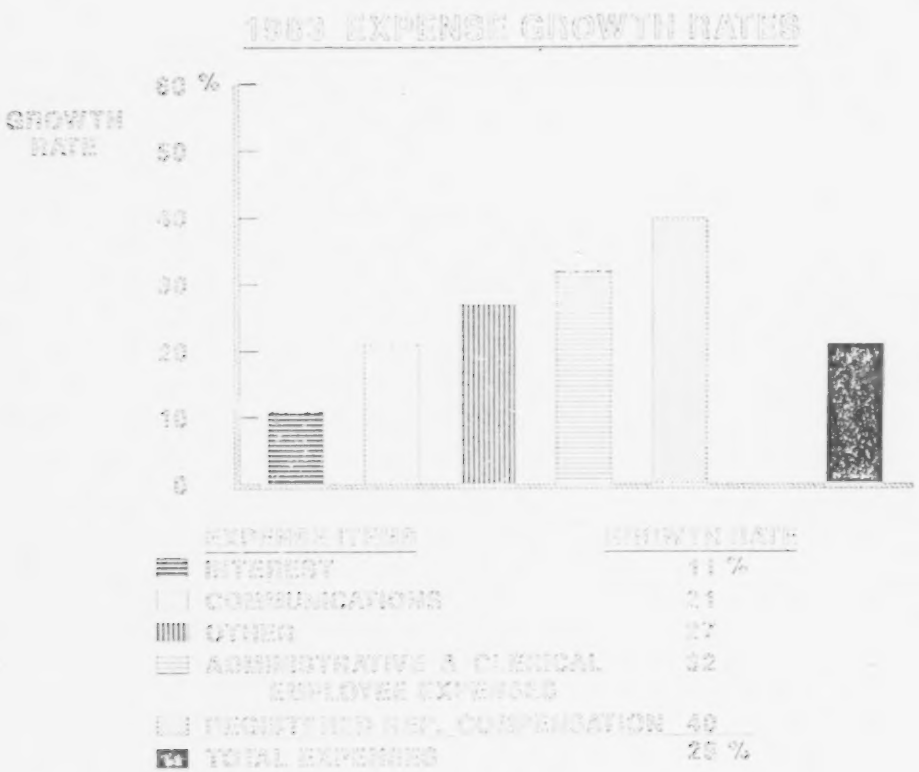
* Trading profits, for instance, rose by $907 million, or 15 percent.

* Commissions from mutual fund sales rose $665 million, or 232 percent.

* And the so-called other related revenue -- which is largely the repo and mergers and acquisitions business -- rose by $450 million, or 11 percent.

While the good news for 1983 was that revenues were strong -- up 28 percent -- the bad news is that expenses also increased -- by the same 28 percent. By way of contrast, in 1982 revenues increased 17 percent, while expenses were up only 14 percent.

Chart 3



In 1983, expenses increased by $5.6 billion to $25.7 billion. Four expense categories accounted for nearly 70 percent of total costs last year. These were:

* RR compensation, which grew by 40 percent, or $1.7 billion;

* Clerical and administrative expenses, which increased by 32 percent, or $1.2 billion;

* Interest expense, which grew by 11 percent or $587 million;

* and expenses in the so-called "other" category, which rose by 27 percent or $481 million.

As you can see, the fastest growing expense item last year was RR compensation -- up by 40 percent. That increase can be explained three ways.

* First, RRs were more productive last year and were compensated accordingly.

* Second, payout percentages increased.

* And finally, more RRs were employed by the industry.

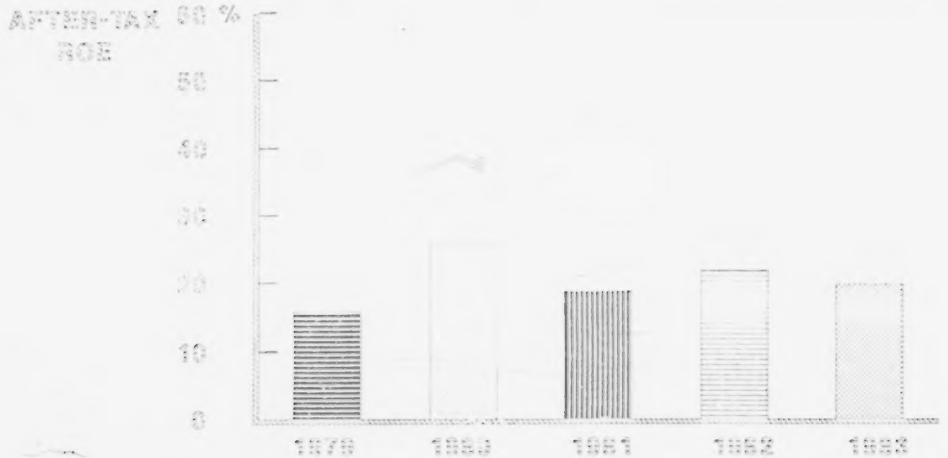
The largest expense category last year -- interest expense -- actually rose the least of all cost categories for the year as a whole. But the sharp spurt in interest expense in the third and fourth quarters of last year was the major factor in the sharp plunge in industry profitability in the second half of 1983. During the second half, in fact, interest expense rose at an annual rate of 90 percent!

In other words, despite all the efforts made at cutting controllable costs such as administrative and clerical expenses, the uncontrollable cost of interest expenses has a much more profound impact on our industry's bottom line. But in a way, this shouldn't surprise us. Interest income and expense have always played an important role in the industry.

Now let's look at that bottom line. The net result of the upward trend in revenues and expenses was that the industry's pre-tax net income rose 26 percent last year, to $3.8 billion from $3 billion.

Chart 1

SECURITIES INDUSTRY AFTER-TAX RETURN-ON-EQUITY, 1979-1983



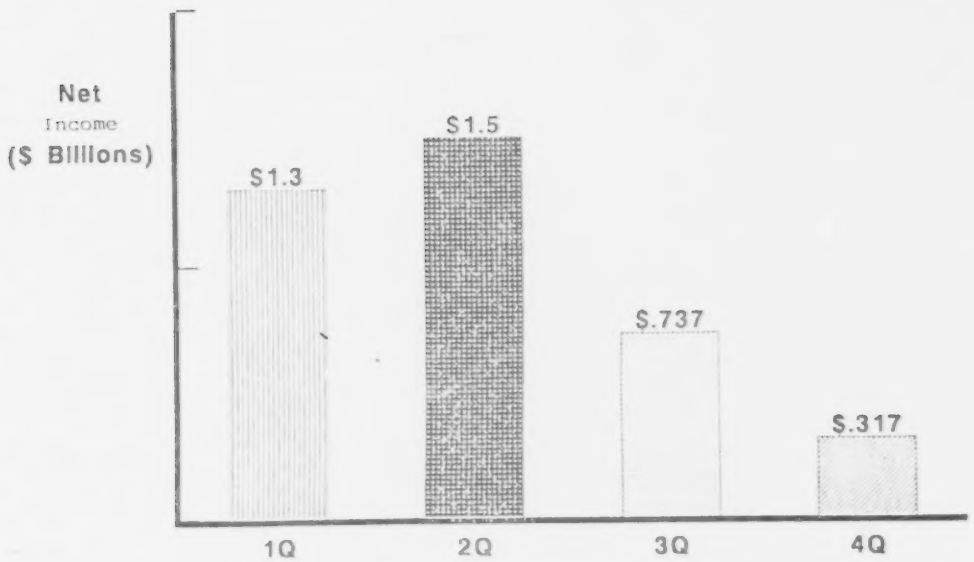
AFTER-TAX ROE	
1979	16%
1980	26
1981	19
1982	22
1983	20

The industry's after-tax return on equity declined, however, largely because the industry's capital base was larger for the year. Capital jumped $3.4 billion to $14 billion -- which drove the after-tax return on equity down to 19.8 percent from 22 percent in 1982. This 19.8 percent return on equity, however, was very close to the figures for 1981 and 1982, and considerably above the R-O-E for the 1973 to 1979 period.

Clearly, the industry's profitability would have been higher if costs had not increased as they did. Let's look at profitability on a quarterly basis.

Chart 5

1983 QUARTERLY NET INCOME



You can see that the industry's profits jumped from the first to the second quarter and then slid. Net income was

* $1.3 billion in the first quarter,

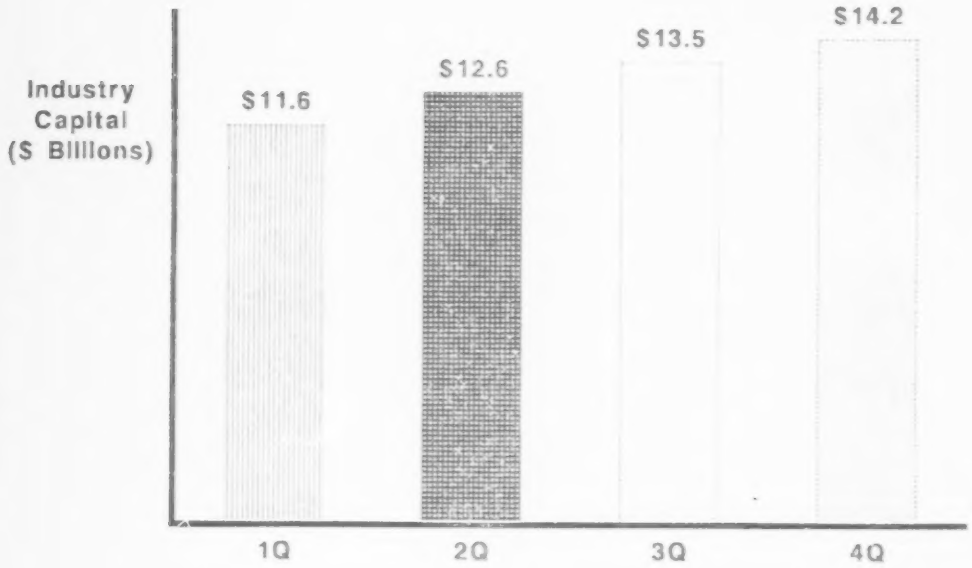
* $1.5 billion in the second quarter,

* about three-quarters of a billion in the third quarter,

* and then only $317 million in the final quarter.

Chart 6

1983 QUARTERLY INDUSTRY CAPITAL



While profitability was sliding, capital was increasing. And that itself is a salutory sign for the long-run outlook for the industry. Because capital, after all, is an unassailable vote of confidence in our business.

If you look at the bar graph representing 1983 on the right hand side of the slide, you can see that R-O-E started off with a bang in the first half, and then fell --

* From 30 percent for the first quarter and 31 percent for the second,

* To 15 percent for the third

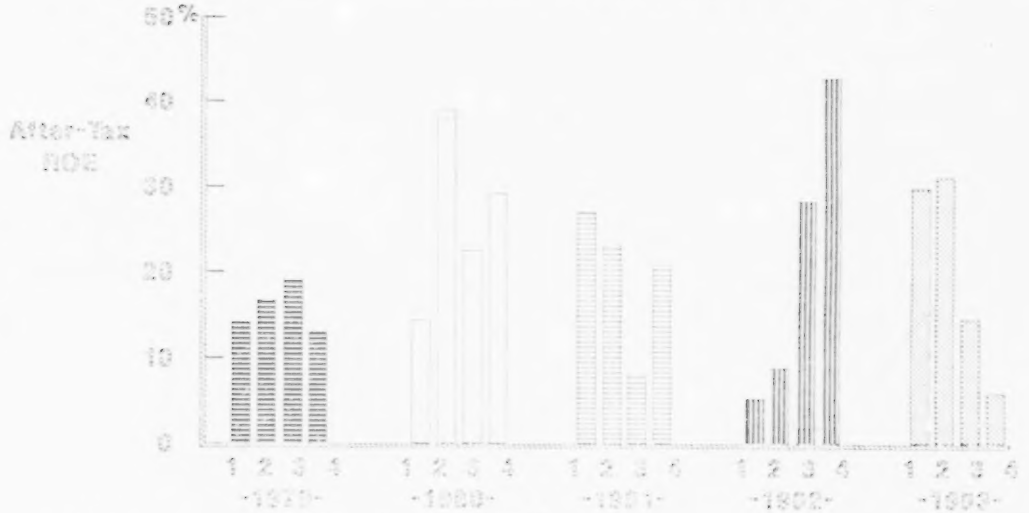
* And 6 percent for the fourth quarter.

Clearly, as you can see from this slide's five year analysis of R-O-E , our industry's profitability is extremely volatile. Nothing new there, I might add!!

Predicting profitability from quarter to quarter -- especially using the past as a guideline -- is difficult at best and probably futile. Perhaps this reinforces what we've been saying for years -- that this business of ours is grounded on the unpredictable with all its attendant risks.

Chart 7

SECURITIES INDUSTRY QUARTERLY ANNUALIZED AFTER-TAX RETURN-ON-EQUITY, 1979-1983



	1979	1980	1981	1982	1983
1	14.2%	16.0%	27.1%	5.5%	30.8%
2	16.8	22.1	23.2	9.1	31.3
3	19.3	22.8	8.4	28.5	14.7
4	13.1	20.3	20.2	41.3	8.0

Given this volatility, it's useful to analyze which revenue and expense items are most responsible for the swings.

In the third quarter of last year, for example, total revenue dropped by $831 million. Three items accounted for nearly all the drop --

* Commission revenues, which fell by $409 million;

* Commissions from mutual fund sales, which were down $267 million;

* And underwriting revenue, which fell by $130 million.

On the expense side, costs declined by only $103 million. While lower expenses for RR compensation, floor brokerage and administrative and clerical salaries helped lower costs substantially, these were offset by higher costs for communications, rent, EDP equipment, promotional expenses and -- most importantly -- the surge in interest expense by $304 million.

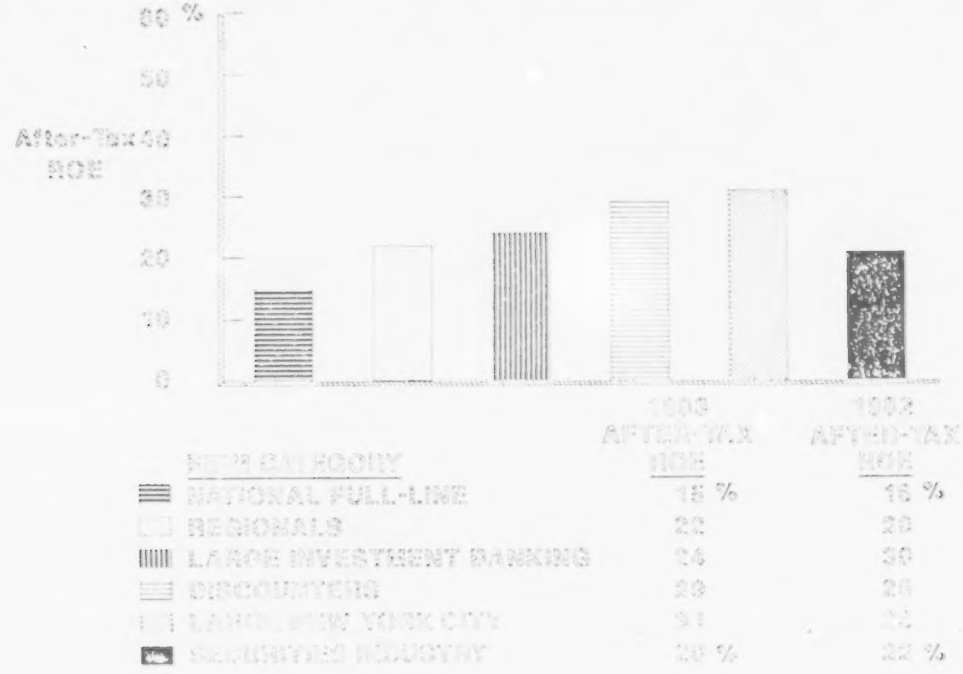
I should add that our business is becoming more and more high-tech. And we're doing that in order to better serve our customers and to provide real value added.

So for the near future, EDP costs will continue to rise regardless of revenues.

Let's look at last year again and see how the industry did on a category-by-category basis.

Chart 8

AFTER-TAX RETURN-ON-EQUITY BY FIRM CATEGORY, 1983



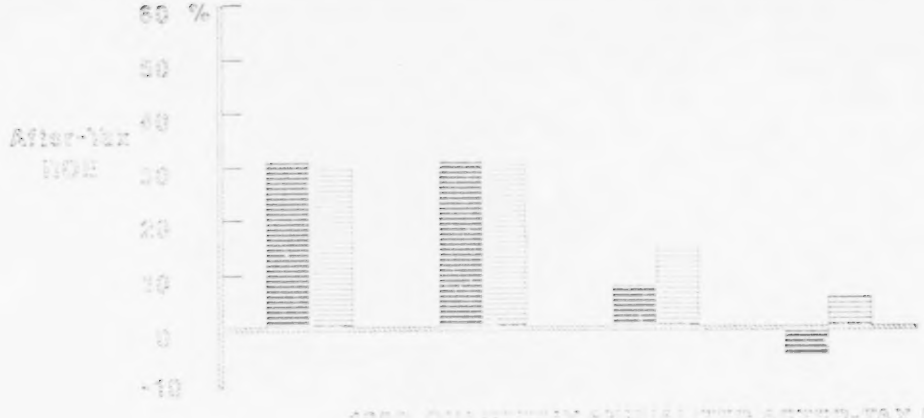
As you can see, the performance of the industry as a whole in 1983 was better than you might have believed.

One reason for the misconception about industry profitability is that the figures appearing in the press are generally those for the publicly-owned firms -- most of which are national full-line firms. These, as you can see, earned an after-tax R-O-E of 15 percent in 1983 -- substantially below the 20 percent return of the industry as a whole.

I should point out, however, that the national full-line firms are dramatically reducing their costs. And, like the auto makers, they should enjoy tremendous upside leverage when the environment for securities firms improves.

Let's look at each category's performance on a quarter-by-quarter basis.

Chart 9



1983 QUARTERLY ANNUALIZED AFTER-TAX ROE

QUARTER	NATIONAL FULL-LINE	INDUSTRY
1	31 %	30 %
2	31	31
3	8	15
4	(5)	9
	15 %	20 %

Again, we see that national full-line firms did not do as well as the industry as a whole in any quarter, with the exception of the second quarter.

Chart 10

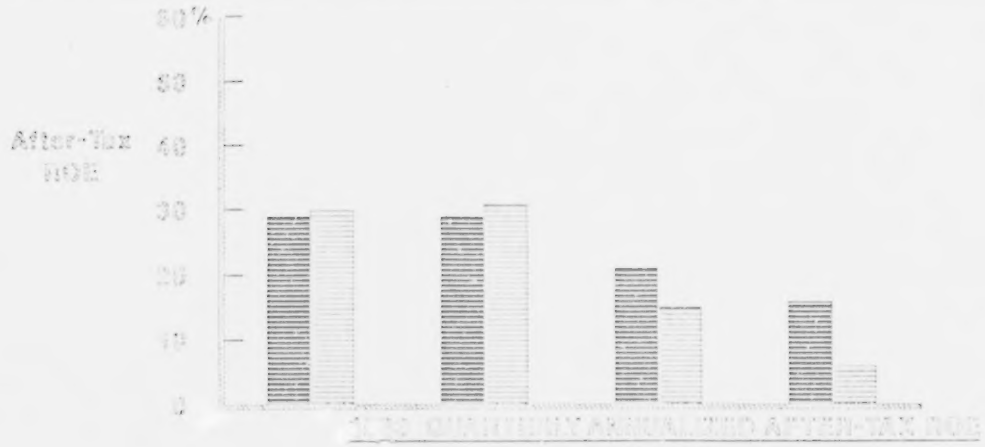
1983 QUARTERLY ANNUALIZED AFTER-TAX ROE

QUARTER	REGIONALS	INDUSTRY
1	30 %	30 %
2	34	31
3	15	15
4	11	9
	22 %	20 %

Regionals did slightly better than the industry, as did large investment banks.

Chart 11

LARGE INVESTMENT BANKS VERSUS INDUSTRY 1983
QUARTERLY ANNUALIZED AFTER-TAX RETURN-ON-EQUITY

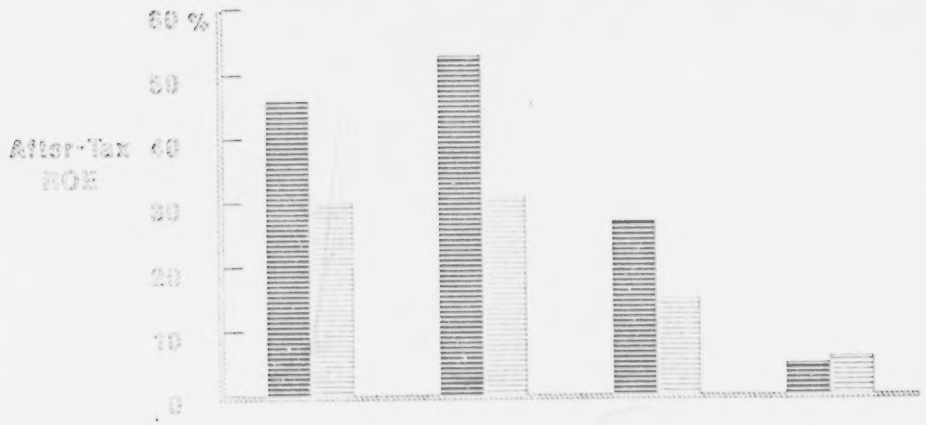


QUARTER	LARGE INVESTMENT BANKS	INDUSTRY
1	29 %	30 %
2	29	31
3	21	15
4	16	12
	24 %	22 %

On a quarterly basis, they slightly underperformed the industry for the first two quarters of the year and then considerably outperformed the industry for the second two quarters of 1983.

Chart 12

DISCOUNTERS VERSUS INDUSTRY 1983 QUARTERLY ANNUALIZED AFTER-TAX RETURN-ON-EQUITY



1983 QUARTERLY ANNUALIZED AFTER-TAX ROE

QUARTER	DISCOUNTERS	INDUSTRY
1	46 %	30 %
2	53	31
3	27	15
4	5	0
	29 %	29 %

Discounters outperformed the industry by a considerable margin, and did so for every quarter of 1983, except the fourth quarter, when they did slightly worse than the industry.

Chart 13

LARGE NEW YORK CITY VERSUS INDUSTRY 1983
QUARTERLY ANNUALIZED AFTER-TAX RETURN-ON-EQUITY

1983 QUARTERLY ANNUALIZED AFTER-TAX ROE

QUARTER	NEW YORK CITY	INDUSTRY
1	33 %	33 %
2	44	31
3	31	15
4	20	9
	31 %	20 %

The one category that outperformed the industry throughout the year was the large New York City firms.

Before I leave the area of profitability, one point I'd like to make concerns our industry vis-a-vis American industry as a whole. Despite its lower profitability in the fourth quarter of 1983, our industry was among the most profitable in the nation for the year as a whole.

Compare our 20 percent R-O-E to the 16.6 percent return of the computer industry, or the 16.7 percent return of the auto industry, which enjoyed a spectacular year. Of course, we should not be satisfied with a return typical of American industry as a whole.

Most analysts believe the securities industry merits a 3 to 5 percentage point R-O-E premium due to the volatility and riskiness of our business. But that said, 1983 was still a very good year for the securities industry.

Now, what of 1984? The economic climate, at least in the first quarter, has not been conducive to profitability. The trend in interest rates was upward. The yield on a 3-month Treasury bill was 9.72 percent at the end of the first quarter of 1984 compared to 8.96 percent at year-end 1983.

On the inflation front, things are much better. The annual rate of inflation is little changed from last year, remaining below the 5 percent level.

Of course, the outlook for inflation and interest rates is affected by the outlook on the deficit. The good news is that a number of legislative proposals have been advanced to reduce the deficit. But the bad news is that the Democratic and Republican plans differ substantially and there is little agreement on expenditure reductions. Assuming the smaller of the expenditure cuts, the package would be worth $15 billion in fiscal 1985, $40 billion in 1986, and $60 billion in 1987. Thus, the budget outlook remains bleak.

I should mention here that SIA is working actively on a number of tax proposals and is monitoring pending legislation so that the burden of any new tax increases will not scuttle the hard-won, important, and effective gains we have made in providing incentives for saving and investing.

Looking at our industry in the first quarter, we can see that all major common stock price indices were down for the period.

* The Dow Jones Industrials were off 7.5 percent,

* The N-Y-S-E Composite was off almost 4 percent,

* The S&P 500 was off by almost 5 percent,

* The Amex Composite was down slightly more than 5 percent,

* And the NASDAQ Composite was off by 10 percent.

Surprisingly, share volume on the Big Board rose 10 percent in the first quarter, reflecting what we believe is a shift to a more institutional market. On the Amex, volume fell by nearly 10 percent and on NASDAQ, volume was off by 1 percent.

In underwriting, the story was disappointing. While corporate bond underwriting rose 50 percent to $14 billion, the gain was measured against a poor fourth quarter. Meanwhile, common stock underwriting fell to $2.3 billion. Can anyone doubt that under the right market conditions this pullback can be reversed?

Based on SIA's newly automated Securities Industry Data Base, the profit outlook for the first quarter is similar to the fourth quarter of last year. SIA estimates that after-tax R-O-E for the first quarter will be in the range of 5-to-8 percent for the industry as a whole. In fact, this range is substantiated by the most recent "SIA Profitability Report," which showed an after-tax R-O-E of about 6 percent for the participating member firm subscribers.

And now, for the rest of the year.

As we've seen, the performance of our industry is related closely to the direction of interest rates. And predicting the course of interest rates is a task I'd rather leave to Fed watchers, economists and psychics. These sages, however, often are wide of the mark, since their pessimism overcomes their better judgment. Overall, though, I think you'd agree with me that there's a much higher degree of skittishness in the air than there has been in recent years.

For instance, when interest rates seem about to drop a few basis points, the market rallies. When there's a hint that interest rates are about to go up, the market falls. So interest rates will play a major role in the performance of the industry for the remainder of the year, as they have for the past several years.

Also playing a role will be the election. Whether President Reagan or a Democrat is elected, the President sworn in next January will face a mounting deficit that must be slashed. And that means either reduced spending, higher taxes, or -- most probably -- both.

So even assuming a scenario for the second half of the year that is favorable, it appears that 1984 will not be one of the strongest years for the securities industry.

That said, however, our industry's profitability has been far above that of American industry as a whole -- and even higher than many of the so-called glamour industries in recent years. Moreover, activity and recent price trends indicate that the second quarter will provide a friendlier environment for us than the disappointing first quarter.

Because of these short-term factors -- and because of several long-term factors as well -- I believe our industry will continue to attract top people, continue to attract capital, and continue to be seen -- for better or worse -- as an inviting target for acquisition minded outsiders.

Thank you.

Edward I. O'Brien
President

SECURITIES INDUSTRY STATISTICS

VOLUME

	MARCH 1984	YEAR-TO-DATE 1984	MARCH 1983	YEAR-TO-DATE 1983	% CHG. Y-T-D 1984 - 1983
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	84.3	95.3	82.7	85.4	11.6
AMEX (MILS.)*	5.3	6.3	7.7	8.4	(25.0)
NASDAQ (MILS.)*	57.6	61.2	56.3	58.2	5.2
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	63,905	209,004	64,972	181,681	15.0
AMEX (MILS.)	1,860	5,820	2,588	7,446	(21.8)
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	7,242	23,390	8,234	22,489	4.0
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	13,729	41,375	17,272	46,771	(11.5)
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	49.6	49.3	44.4	43.3	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	5,075	17,856	5,444	17,270	3.4
AMEX OPTIONS	3,591	9,971	3,001	8,925	11.7
COMMODITY	13,958	37,595	11,723	33,976	10.7

* *MONTHLY AVERAGE*

YIELDS

(MONTHLY AVERAGES)

	MARCH 1984	MARCH 1983	Basis Point Change March'84-March'83
BOND BUYER INDEX (20 BOND)	9.94	9.20	74
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	12.57	11.73	84
Baa CORPORATE	13.99	13.61	38
RATIO Aaa CORPS. TO Baa CORPS.	0.90	0.86	---
MUNICIPAL BOND YIELDS (MOODY'S)	9.41	8.42	99

PRICES

(END OF MONTH)

	MARCH 1984	MARCH 1983	% Change March'84-March'83
DOW JONES INDUSTRIALS	1164.9	1130.3	3.1
STANDARD & POOR'S 500	157.06	152.96	2.7
NYSE COMPOSITE	91.67	88.03	4.1
AMEX MARKET VALUE INDEX	422.68*	389.08*	8.6
VALUE LINE COMPOSITE	182.19	179.25	1.6
NASDAQ COMPOSITE	250.78	270.80	(7.4)

* Adjusted for 2-1 split on 7/5/83.

MUTUAL FUNDS
(DOLLARS IN MILLIONS)

	MARCH 1984	Yr.-to-Date 1984	MARCH 1983	Yr.-to-Date 1983	% Change Y-T-D 1984-1983
NET SALES*	1875.6	5072.3	1824.3	4291.4	18.2
NET PURCHASE OF COMMON STOCK*	482.7	1259.4	1239.3	2682.0	(53.0)
NET PURCHASE OF OTHER SECURITIES*	376.2	1026.0	337.3	281.2	264.9
MUTUAL FUND CASH POSITION	11.4	----	11.1	-----	------

*EXCLUDES MONEY MARKET, MUNICIPAL BOND AND OPTION FUNDS

MARGIN DEBT

	MARCH 1984	MARCH 1983	% Change Mar.'84-Mar.'83
MARGIN DEBT OUTSTANDING ($MILS)	22,460	14,170	58.5
NET CHANGE IN MARGIN DEBT ($MILS)	8,290	2,330	----
% OF ACCOUNTS WITH EQUITY UNDER 40%	11.0	9.0	----

UNDERWRITING
(DOLLARS IN MILLIONS)

	MARCH 1984	Year-to-Date 1984	MARCH 1983	Year-to-Date 1983	% Change March-March	% Change 1984-1983
CORPORATE FINANCING (Gross New Issues)						
Total	4,227	17,627	12,795	28,042	(67.0)	(37.1)
Common Stock	707	2,344	5,876	9,908	(88.0)	(76.3)
# Of Common Stock Issues	64	217	137	286	(53.3)	(24.1)
Preferred Stock	288	1,051	908	3,761	(68.3)	(72.1)
# Of Preferred Stock Issues	6	17	14	49	(57.1)	(65.3)
Corporate Debt	3,232	14,032	6,011	14,373	(46.2)	(2.4)
# Of Corporate Debt Issues	37	157	58	171	(36.2)	(8.2)
MUNICIPAL FINANCING* (Gross New Issues)						
Total	8,421	22,632	10,132	24,215	(16.9)	(6.5)
Notes	3,393	8,138	2,282	6,976	48.7	16.7
Bonds	5,028	14,494	7,850	17,239	(36.0)	(16.0)
# of Bond Issues	376	890	570	885	(34.0)	0.56
Negotiated Bonds	3,119	10,193	4,520	11,936	(31.0)	(14.6)
Revenue Bonds	2,945	8,633	5,035	11,991	(41.5)	(28.0)

*Preliminary Figures

FINANCIAL DATA FOR NYSE FIRMS DOING A PUBLIC BUSINESS
(MILLIONS OF DOLLARS)

	FOURTH QUART R 1983	Yr.-To-Date 1983	FOURTH QUARTER 1982	Yr.-To-Date 1982	% Change 4th Q.1983 4th Q.1982	% Change 1983 - 1982
REVENUE						
SECURITIES COMMISSION INCOME	1,868	8,326	2,270	5,972	(17.7)	39.4
REALIZED AND UNREALIZED GAIN OR LOSS IN TRADING AND INVESTMENT	1,660	7,572	2,397	6,532	(30.7)	15.9
PROFIT OR LOSS FROM UNDERWRITING AND SELLING GROUPS	812	3,537	929	2,316	(12.6)	52.7
TOTAL REVENUE	7,245	29,515	7,823	23,100	(7.4)	27.8
TOTAL EXPENSES	6,928	25,706	6,199	20,079	11.8	28.0
NET INCOME BEFORE TAXES	317	3,809	1,624	3,021	(80.5)	26.1
PERCENT OF FIRMS SHOWING LOSS	37.3	14.5	9.3	16.5	301.1	(12.1)

RECENT INTERESTING READING AND STATISTICAL MATERIAL

ITEM	DESCRIPTION	SOURCE
Transcript: SIA Trends Conference on Deregulation: Opportunities & Pitfalls	153-page transcript records varied perspectives on how the industry might cope with the inevitable trend toward deregulation. The alternative strategies under deregulation are explored, as well as the specific strategies employed by four different types of firms. In addition, strategies for obtaining capital and distribution are discussed. The keynote speaker, Charles L. Brown, gives an intriguing look at AT&T after divestiture.	SIA Research Department $25 Conference attendees $50 all others
SIA Statement before the House Ways and Means Committee on Tax Treatment of Interest Paid to Foreign Persons, 5/1/84	SIA believes the best way of preserving and broadening access for U.S. corporations to the Eurobond market is through enactment of the Gibbons-Conable bill. Testimony discusses the benefits of immediate repeal of the 30% withholding tax, including $150 million in tax revenue now paid to the Netherlands Antilles and the broadening of foreign investors' ability to purchase newly-offered debt securities of all U.S. borrowers.	SIA Research Department
Report on Human Resources Management Practices & Employee Benefits -- 1984	123-page companion survey to SIA annual salary surveys. Among the topics covered in the report are sources of employees, job evaluation and salary administration, vacation holiday and time-off practices, health and life insurance plans, and pension and profit-sharing benefits.	Madeleine L. Ritter SIA SIA Members $400 Others $550
Discount Brokerage of Securities: A Status Report	This report provides some statistical measures of discount brokerage activity, with comments on the adequacy of the data presented. The report also deals with factors influencing customer preference in choice of brokers, and includes comments from a variety of sources on the anticipated future of discount brokerage.	Congressional Research Service The Library of Congress Report #84-32 E 3/12/84

ITEM	DESCRIPTION	SOURCE
"Soft dollars: The boom in third-party research"	Extensive article on the boom in third-party research. Growing numbers of entrepreneurs are vying with traditional Wall Street producers for a slice of the commission pie. Some observers believe the success of these firms could lead to the eventual "unbundling" of the Street's own research products.	Institutional Investor 4/84
American Stock Exchange Annual Report 1983	The AMEX Market Value Index outperformed all other leading indices, setting new records 45 times during 1983 and closing the year up 31% from the previous year's close. Annual report details records set in 1983 and contains 10-year statistical summary of trading, financial data and options.	American Stock Exchange 85 Trinity Place N.Y., N.Y. 10006
Canadian Shareowners: Their Profile and Attitudes	Canadian Shareownership Survey shows that only 11% of adults own stock, compared with a 22% incidence of shareownership in the U.S. Report includes sections on profile of shareowners, reasons for investing, investment portfolio characteristics, shareowners' use of financial services and factors influencing investment decisions.	Toronto Stock Exchange Circulation Div.
Federal Reserve Bank of New York Annual Report 1983	Sixty-ninth annual report reviews major economic and financial developments, at home and abroad. While the economic recovery in 1983 exceeded most expectations, the financial markets remained concerned about the long-term outlook for inflation as the expansion continued against the backdrop of unprecedented projected budget deficits.	Public Information Federal Reserve Bank of New York 33 Liberty Street N.Y., N.Y. 10045

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Produced by the SIA Research Department

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A FLAT RATE TAX: PROS & CONS

HIGHLIGHTS

1. The flat rate income tax concept will receive a full hearing over the next year along with other tax alternatives to our current tax system. It is healthy for the capital markets and the securities industry to start thinking sooner rather than later about the implications.

2. In recent years, individuals' real after-tax purchasing power has declined as both the progressive income tax and inflation eroded increases in income. While inflation has subsided from the levels which spurred public protest against bracket creep in the 1970s, the growth of two-worker families is but one indication that bracket creep is not necessarily a thing of the past.

3. The obvious trade-off to any flat rate proposal is a substantial broadening of the tax base. Given concern over projected Federal deficits, the flat rate's potential for broadening the tax base and increasing revenues has taken on a new significance.

4. Some proposals built on the flat rate concept specifically address savings and investment, others do not. As the key to stimulating savings and investment is the after-tax return, proposals which sharply increase the effective tax rate on capital gains are disappointing.

5. Under a pure flat rate tax, there would be a reallocation of funds to lower risk investments until a new equilibrium is reached, given the same level of savings. However, we believe that, with marginal rates at 20% or less, there would be a move away from consumption toward savings.